THE CITY OF SAN DIEGO

MANAGER'S REPORT

DATE ISSUED: February 26, 2003 REPORT NO. 03-024

ATTENTION: Honorable Mayor & City Council
Docket of March 3, 2003

SUBJECT: Equipment and Vehicle Financing Program

SUMMARY

Issues:

1) Should the City Council authorize the City Manager to select the most responsive, duly qualified, responsible and competitive primary and secondary lease provider(s) responding to the Request for Proposals and enter into Master Lease Agreements for the financing and potential refinancing of equipment over 3- and 4-year lease terms?

2) Should the City Council authorize the City Manager to select the most responsive, duly qualified, responsible and competitive primary and secondary lease provider(s) responding to the Request for Proposals and enter into Master Lease Agreements for the financing and potential refinancing of equipment over a 5-year lease term and the financing of equipment over 6- and 7-year lease terms?

Manager's Recommendations:

1) Authorize the City Manager to select the most responsive, duly qualified, responsible and competitive primary and secondary lease provider(s) responding to the Request for Proposals and enter into Master Lease Agreements for the financing and/or potential refinancing of equipment over 3- and 4-year lease terms.

2) Authorize the City Manager to select the most responsive, duly qualified, responsible and competitive primary and secondary lease provider(s) responding to the Request for Proposals and enter into Master Lease Agreements for the financing and/or potential refinancing of equipment over a 5-year lease term and the financing of equipment over 6- and 7-year lease terms.

Other Recommendations:

None

Fiscal Impact:

There is no fiscal impact associated with authorizing the City Manager to enter into the Master Lease Agreements because the Master Lease Agreements do not authorize the purchase of equipment or obligate the City to lease-purchase equipment. The Master Lease Agreements under the Equipment and Vehicle Financing Program only provide an alternative method of financing acquisitions should the City decide to take advantage of it.

The refinancing of previously lease-purchased equipment may be undertaken when market conditions indicate that lower interest rates will result in significantly lower lease payments for previously lease-financed equipment. In Fiscal Year 2003, the City refinanced 74 leases, realizing savings of approximately $650,000 over 3 to 5 years as a result of lower interest rates.

BACKGROUND

In light of the City's budgetary and fiscal constraints, the City Council implemented the Equipment and Vehicle Financing Program (formerly the Master Lease Program) in 1993, enabling the City to finance the acquisition of needed equipment by lease-purchase. A lease-purchase transaction is considered to be an ideal financing package for essential acquisitions of equipment. Although there are financing costs associated with lease-purchase transactions, the savings over traditional tax-exempt financing can be substantial. We are advised by the City Attorney and Special Counsel retained by the City Attorney, that because the agreements associated with lease-purchase transactions specify that lease payments are subject to annual appropriations, the annual monetary obligations arising from lease-purchase agreements are not considered to be debt under the City Charter or the State Constitution.

Lease-purchase agreements are structured for a period of three (3) to seven (7) years, allowing the City to coordinate payments for essential acquisitions to meet budgetary restrictions and/or limited revenue capacity. The City has utilized the Equipment and Vehicle Financing Program to a) spread acquisition costs over the useful life of equipment; b) acquire and make use of equipment in the near term versus waiting until cash is accumulated; and, c) acquire equipment at current costs rather than at escalated costs in the future when cash might be available.

Since the inception of the Equipment and Vehicle Financing Program, the City has utilized the Program to finance a wide variety of essential equipment (ambulances; fire and hazardous materials equipment; police vehicles; refuse containers and refuse packers for the implementation of the Automated Refuse Collection Program; recycling containers and recycling packers for the expansion of the Curbside Recycling Program; traffic signal lights; parking meters; telecommunications equipment; and service maintenance vehicles).

Lease purchase financing through the Equipment and Vehicle Financing Program is used very judiciously. All items to be lease-purchase financed are subject to prior managerial approval and/or budgetary approval. Furthermore, lease-purchase acquisitions with a cost of over $1 million are subject to City Council approval independent of the herein requested Council approval of the Master Lease Agreements. Each acquisition is reviewed by City staff to assess the suitability of lease-purchase financing based upon the following criteria:

1) Whether the use of the equipment is essential to City operations;
2) Whether the acquired equipment is revenue generating or required by an internal service provider;
3) The size of the purchase in relation to the department's non-personnel expense budget;
4) Whether lease-purchase financing is a cost-effective funding alternative to vendor financing;
5) Whether grants or other cost-saving incentives to acquire the equipment now will offset a portion of acquisition costs; and,
6) Whether the immediate acquisition of equipment will result in long-term savings to the City.

The Equipment and Vehicle Financing Program and its associated financing agreements have been analyzed by City staff in comparison to similar lease programs such as the CaLease Program through the California Statewide Communities Development Authority, the G$Mart Program of the State of California, and the California Infrastructure and Economic Development Bank. The City's Equipment and Vehicle Financing Program has continued to compare favorably in terms of eligibility, interest rate competitiveness, financing flexibility, and timeliness of funding (which has been deemed essential to continued substantial vendor discounts).

DISCUSSION

Authorizing the City Manager to enter into Master Lease Agreements with the most responsive, duly qualified, responsible and competitive primary and secondary lease provider(s) selected through a competitive process will enable the City to obtain competitive interest rates, to design a tailored payment plan, and to obtain immediate use of essential equipment in an expeditious fashion.

By authorizing the City Manager to enter into financing and refinancing agreements promptly when market conditions are advantageous to the City, within the parameters described below, the City Council will facilitate the financing and potential refinancing of equipment at competitive interest rates. The Master Lease Agreements are for a duration of one year and are limited to financing a maximum $15 million per term for each of the 3- to 7-year terms, and refinancing a maximum of $5 million per term for each of the 3-, 4-, and 5-year terms. The maximum rate of interest to be charged as of the commencement of the Agreements will not exceed 5.5% and will thereafter be indexed to a percentage of a floating interest rate (either the Treasury rates or the Municipal Market Data AAA rates for comparable maturities).

Fiscal Year 2004 Master Lease Agreements:

Together with PRAG, the City's independent financial advisor, City staff plans to issue an RFP in March 2003 to over forty (40) firms, to solicit proposals for the City's Equipment and Vehicle Financing Program, for the financing of new equipment and the potential refinancing of prior lease purchases. PRAG, Financing Services and the City Attorney's Office will evaluate the bids based upon the following criteria: (a) interest rates proposed for various lease periods; (b) the proposer's ability to comply with the terms of the proposed agreement; (c) the proposer's willingness to finance and or refinance a sample list of acquisitions; and, (d) the City's past experience with the proposer, if applicable. It is anticipated that the lease provider selection process will be completed by the end of April 2003 with the Agreements for FY 2004 to become effective soon thereafter; the FY 2003 Master Lease Agreements will expire on May 31, 2003. In the event that the primary lease providers are unwilling or unable to finance or refinance acquisitions, or are otherwise unable to fulfill the terms of the Agreements, concurrently, the City Manager will also designate secondary (back-up) lease providers for each lease term. This will ensure that financing is available for all potential City lease-purchase acquisitions.

CONCLUSION

It is recommended that the City Council authorize the City Manager to select the most duly qualified, responsible and competitive primary and secondary lease provider(s) responding to the Request for Proposals and enter into Master Lease Agreements for the financing and potential refinancing of equipment under the City's Equipment and Vehicle Financing Program.

ALTERNATIVES

Do not authorize the City Manager to select the most duly qualified, responsible and competitive primary and secondary lease provider(s) responding to the Request for Proposals and enter into Master Lease Agreements for the financing and potential refinancing of equipment under the City's Equipment and Vehicle Financing Program, thereby limiting the financing options available for essential equipment acquisitions.

Respectfully submitted,

____
MARY E. VATTIMO
City Treasurer

____
Approved: PATRICIA T. FRAZIER
Deputy City Manager

FRAZIER/MEV/CM/KSB

Attachment: Master Lease Agreement for the Equipment & Vehicle Financing Program